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IN THE

SUPREME COURT OF THE UNITED STATES.

OCTOBER TERM, 1941.

MORTON SALT COMPANY,
Petitioner,
v.
THE G. S. SUPPIGER COMPANY,
Respondent.
No. 49.

BRIEF FOR RESPONDENT.

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BRIEF FOR RESPONDENT.

STATEMENT.

Opinions of the Courts Below.

This case is before this Court on a writ of certiorari to the Circuit Court of Appeals for the Seventh Circuit for review of a decree of that court.

The Memorandum of the United States District Court for the Northern District of Illinois was filed January 31, 1940 (R. 56) and is recorded at 31 F. Supp. 876. The court's findings of fact and conclusions of law are in the Record at pages 61-63.

The opinion of the Circuit Court of Appeals of the Seventh Circuit was filed January 14, 1941 (R. 124-130) and is recorded at 117 F. (2d) 968. A Petition For Rehearing was denied March 11, 1941 (R. 157).

The Petition For Writ of Certiorari of the petitioner was filed April 12, 1941, and was granted May 26, 1941 (R. 162).

The Petitioner correctly states the source of this Court's jurisdiction.

Supplemental Statement of the Case.

Inaccuracies or misstatements, omissions, and argument in the petitioner's summary statement require us to correct and supplement the facts for this Court's consideration.

The *main* business of the respondent is not the manufacture and sale of salt tablets, or the manufacture and lease of depositing machines; it is canning. The Seventh Circuit Court of Appeals sums up the facts in connection with this point (R. 125):

> "The Facts. Plaintiff is a canning company which owns and operates a wholly owned subsidiary devoted to making and leasing a patented tablet depositing machine and to making and selling salt tablets of a particular design and configuration.
>
> "This last-named business is much smaller than plaintiff's main business, which is canning."

The respondent pioneered the salt tablet field for commercial canning. Its president, G. S. Suppiger, a canner of many years experience, in 1927 conceived that a salt tablet of predetermined weight would overcome the difficulties existing in the use of loose salt and brine in commercial canning. Salt tablets had never been so used before. These facts stand proved in the Sixth Circuit suit to which the petitioner repeatedly refers.

Immediately Suppiger set about to provide mechanical depositing means to eliminate the human element in salting, although hand salting was used at first and *is still*

used in many places. In 1931 U. S. Letters Patent 1,824,695 issued to Suppiger (R. 83-92) with two restricted claims. Other machine patents were issued subsequently (R. 93, 107, 69).

Salt tablets have been sold to canners since 1927, fourteen years, and beginning in the same year of 1927 unpatented depositing machines were leased under restricted supplies clauses (U. S. Letters Patent 1,824,695 were filed December 12, 1927 (R. 83-92). The respondent has leased at least some patented machines under restricted supplies clauses since 1931 (Issue date of U. S. Letters Patent 1,824,695) *ten years*, yet the respondent *has not* established a monopoly in salt tablets, and what is more, the *petitioner does not even claim that the respondent has effected one.*

The respondent leases *both patented and unpatented tablet depositing machines* under one or the other of two leases which are of record as Defendant's Exhibit 1 (R. 31, offered R. 15) and Defendant's Exhibit 2 (R. 34, offered R. 16). Each lease contains the condition that tablets *for use in the leased machine* shall be bought only from the lessor (R. 32, par. 1, and R. 36, Par. G, respectively). Otherwise, the leases differ, the lease comprising Defendant's Exhibit 2 not mentioning salt tablets or any patents owned by the respondent.

The District Court's findings of fact were *not* "adopted from findings common to those presented by both parties (R. 57-59) and respondent (R. 59-61)." It omitted important findings suggested by the respondent and accepted findings not submitted by the respondent.

Further, in regard to the point of no issue as to material facts, what the respondent suggested was (R. 61):

> "6. There is no genuine issue as to any material fact *involved in the matters submitted* under the Motion for Summary Judgment." (Emphasis supplied.)

Some additional important facts found by the Circuit Court of Appeals are conveniently overlooked by the petitioner. To use the words of Judge Evans (R. 129, 130):

> "In support of its contention that it was not substantially lessening competition or creating a monopoly in the salt business, plaintiff calls attention to the following facts:
>
> "(1) Plaintiff's machine is not the only machine used by the trade to deposit salt tablets of predetermined amount in the canning or other industries.
>
> "(2) Defendant makes a machine and uses it in the same way as plaintiff. It requires its purchaser or licensee to use salt tablets made by it.
>
> "(3) Plaintiff's lessees are permitted to purchase and use other machines. Its lessee may use, in connection with such other machines, any salt or salt tablets it desires. For the significance of this fact, see *Federal Trade Commission v. Sinclair Company*, 261 U. S. 463.
>
> "(4) The volume of all the salt business is large. The amount used in the canning field is so small that its complete control would not result in a monopoly of the salt industry. It is not the salt tablet as such but the salt which goes into the salt tablet which must determine the monopolistic tendency of plaintiff's lease contracts. For comparison see the amount of cracked gas to all gasoline used in the Standard Oil case, with the percentage of salt used in canning to all salt used for all purposes.
>
> "(5) Plaintiff stresses the fact that its machine may be used by its licensee for purposes other than depositing salt.
>
> "(6) Plaintiff's machines call for a $30 annual rental. The two hundred machines it has leased each cost $300 to build, from which fact it argues that the making of the machine for rental purposes—a 10% return—can not be called a sham or a coverage to monopolize the sale of an unpatented product, salt."

Hence, for each machine manufactured under the patent sued on rented under lease of the form of Defendant's Exhibit 1 or 2, a charge is made to the lessee of $30 per year (R. 19). A year to a canner of tomatoes, or the like, is from two to three months so that a machine is in actual service only a short period of time each year.

The respondent's general assistant to the manager stated on deposition that he estimated 200 machines constructed under the patent in suit are under lease to canner (R. 28, Qs. 44, 45). He did not testify as to how many canners were involved. As we asked the Seventh Circuit Court of Appeals, we ask this Court to take judicial notice of the fact that the National Canners Association of Washington, D. C., lists some *thirty-two hundred* canners in its 1940 Canners' Directory, a year book of 176 pages.

For reiteration, the petitioner is a direct infringer that has willfully copied the respondent's machine, well knowing all attendant circumstances. This is not a case of a plaintiff seeking assistance from the law to stop a competitor from competing with it in unpatented merchandise.

SUMMARY OF ARGUMENT.

The facts adduced by the petitioner before the District Court are insufficient to support the Motion for Summary Judgment, and such facts as are of record are contrary to the petitioner's theory of the case.

A contract between a lessor and a lessee whereby a depositing machine owned by the lessor is leased to the lessee for a stated yearly rental charge upon the condition that tablets (unpatented articles) deposited by the machine shall be purchased exclusively from the lessor is not automatically invalid because of the fact, *and for the fact alone*, that the lessor owns a patent under which the machine is constructed, and thereby a defense for an infringer of the patent. A contract of this nature is tested by the general law, especially Sec. 3 of the *Clayton Act*, and not by statutory or court law applicable directly to patents, and in the application of the test of Sec. 3 of the *Clayton Act* there must be a full and fair trial.

A contract restrictively leasing a machine operative with unpatented supplies, which is legal when the machine is unpatented, does not become illegal upon the issuance to the lessor of a patent on the machine solely by that fact, and thereby a shield to infringers of the patent.

The petitioner as a direct infringer has trespassed on the statutory monopoly granted to the respondent under its Letters Patent No. 2,060,645, and in suing the petitioner for infringement the respondent is not without sanction of law, for it is not thereby attempting to establish a monopoly in salt tablets, but is protecting its legal monopoly.

The respondent is suing the petitioner for direct infringement of its Letters Patent No. 2,060,645, and any monopolistic practice it may engage in above and beyond a specific use of the patent cannot serve as a defense to the charge of infringement.

ARGUMENT.

THERE IS NOT SUFFICIENT EVIDENCE OF RECORD UPON WHICH TO GRANT THE MOTION FOR SUMMARY JUDGMENT.

The Seventh Circuit Court of Appeals ruled that there is *not* sufficient evidence of record upon which to grant the motion for summary judgment out of which this issue grew. We emphasize the point for this Court's consideration.

All that the petitioner established is that the respondent leases patented depositing machines upon the condition that they be employed to deposit only salt tablets sold by the respondent, that the salt tablets are unpatented, although of a particular configuration, that any manufacturer can make the tablets, and that about 200 such machines are now leased.

There is no evidence as to the number of canners in the country, as to the number of canners that use depositors and the number that do not, as to the number of depositors used by a canner, as to the number of canners that purchase salt tablets from the respondent, the petitioner and others, as to depositors manufactured by other concerns than the respondent, and as to numerous other important matters.

Certainly, so far as the record shows, the petitioner, or third parties, may lease a multitude of noninfringing depositing machines, patented or unpatented, and may do the bulk of the salt tablet business through such machines.

We reiterate that all the record shows is that the respondent leases some patented depositing machines on the condition that only salt tablets sold by it be used thereby. The respondent's "monopoly" goes no further than a legal

use of its machines, its own property. How can this support the petitioner's motion granted on authority of the *American Lecithin Co.* case, 105 F. (2d) 207? The American Lecithin Company was guilty of a quite different practice as the Seventh Circuit Court of Appeals recognized, and ruled accordingly, and as this Court can readily see.

We submit, therefore, that the Seventh Circuit Court of Appeals should be affirmed on this ground of insufficient evidence.

THE RESPONDENT ENGAGES IN A PRACTICE THE LEGALITY OF WHICH IS TO BE ADJUDGED BY THE CLAYTON ACT, AND IT IS NOT ATTEMPTING TO EXTEND THE MONOPOLY OF ITS PATENT TO COVER UNPATENTED SALT TABLETS.

What is the Respondent's Accused Practice?

In order to reach a conclusion as to the legal status of the accused practice of the respondent, it is necessary to have in mind clearly *just what* that accused practice is.

The respondent manufactures and leases to canners, among other depositing machines, depositing machines constructed in accordance with the claimed teachings of its patent No. 2,060,645 upon which this suit is based. The machines are the property of the respondent. Each lease, be it of the nature of Defendant's Exhibits 1 or 2, includes the provision that the lessee shall use in the leased machine only tablets purchased from the respondent. One lease mentions patents and salt tablets; the other one does not. This, succinctly, is the accused practice of the respondent. The petitioner *does not contend* that the respondent by its practice has established a monopoly in unpatented salt tablets and there is surely not a scintilla of evidence of record to that effect.

Important attendant circumstances are that the respondent manufactures and leases under the accused restrictive clause depositing machines under patents other than that in suit and machines not covered by any patents at all. It leased machines under the restricted clause years before any patents were granted to it. It sells depositing machines manufactured under the patent for uses other than the depositing of salt tablets (R. 51, 52). In the accused leases of the respondent, there is no requirement which prohibits the lessee from leasing or purchasing another manufacturer's depositing machine, nor is the lessee forbidden to purchase salt tablets from another company for use in such depositing machines. Many canners have a plurality of canning lines on which different machines are used (R. 26, Qs. 27-31).

It is apparent, therefore, that the respondent practices the invention of its patent No. 2,060,645, since it manufactures depositing machines thereunder, that it retains title to such machines, and that it leases such machines by a written lease and under a specified yearly rental. It sells outright some machines.

Not by way of excuse, since we do not urge any, but as an agreed fact, the petitioner leases the infringing machines with a tag thereon prohibiting the use of the machines save for the deposit of salt tablets sold by the petitioner. Other concerns engaged in the same practice. The petitioner and those other firms engaging in this practice consider it legal, or surely they would not indulge in it.

Therefore, the case simmers down to a contention that the respondent is beyond the pale of the law because certain of its leased machines are constructed under patent rights; in other words, that if the respondent's machines were not patented, then its practice would be legal, providing no violation of the Clayton Act existed, a conclusion

unreasonably penalizing a patent owner and choking the spirit of invention. The position is utterly fallacious as the Seventh Circuit Court of Appeals readily saw, and as we shall conclusively demonstrate to this Court.

The Present Case Falls Into One of Two Categories.

The respondent is either

1. Using its patent in suit to create a monopoly in unpatented salt tablets in which its sole profits lie, or

2. Working its patent in suit by manufacturing depositing machines thereunder, retaining ownership thereof, and leasing them by individual contracts to canners for a price per year on the stipulation that only salt tablets purchased from the respondent be deposited by the machines, said leases including no prohibition against the lessors using others' machines and depositing others' tablets thereby.

This Court has condemned the first practice in *Carbice Corp. v. American Patents Development Corp.*, 283 U. S. 27, 75 L. ed. 819, and *Leitch Mfg. Co. v. Barber Company, Inc.*, 302 U. S. 458, 82 L. ed. 371. We do not concern ourselves with an analysis of this rule beyond stating here that this Court surely did not intend to stifle invention, and pointing out *infra* that we distinguish. The petitioner contends for the application of this rule.

The second practice is adjudged by Section 3 of the *Clayton Act* and the general law as this Court plainly stated in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502, 61 L. ed. 871, and was sanctioned by this Court in *Federal Trade Commission v. Sinclair Refining Co.*, 261 U. S. 463, 67 L. ed., where, under the facts, no monopoly in a dispensed product resulted, and was condemned in *International Business Machine Corp. v. U. S.*, 298 U. S. 131, 80 L. ed. 1085, where, under the facts, a monopoly did result in a product used with the

leased machines. We submit that the respondent's practice is in this second classification, and, hence, that we are entitled to a full trial on the merits.

This Court's Position Relative to "Supplies Clauses" as Stated in Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U. S. 502, 61 L. ed. 371.

With the respondent's practice well in mind, we direct this Court's attention to its clear-cut words in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502, 61 L. ed. 871, in regard to the restriction to specific supplies of patented machines *derived from a particular contract* between the patent owner and a lessee or purchaser. The case was the forerunner of the *Carbice* case, *supra*, in which it was cited with approval.

The *Motion Picture* case, *supra*, involved a consideration of the *sale* of a patented motion picture projector machine which carried a notice that it could be used only with a certain film manufactured by the patent owner. The machines were sold outright by a licensee of the patent owner. Machine owners using film not specified were sued.

Before condemning the practice of the patent owner in the *Motion Picture* case, *supra*, this Court said (pp 875-876):

> "The extent to which the use of the patented machine may validly be restricted to *specific supplies* or otherwise *by special contract* between the owner of a patent and the purchaser or licensee *is a question outside the patent law, and with it we are not here concerned* * * *." (Emphasis added.)

And (p. 877):

> "Whatever the right of the owner may be to control by restriction the materials to be used in operating the machine, it must be a right derived through the

> *general law from the ownership of the property in the machine,* and it cannot be derived from or protected by the patent law, which allows a grant only of the right to an exclusive use of the new and useful discovery which has been made—this and nothing more."

And even in pointing out the fallacy of the reasoning in the *Button-Fastener Co.* case, 77 F. 288, this Court said (p. 878):

> "This decision proceeds upon the argument that, since the patentee may withhold his patent altogether from public use, he must logically and necessarily be permitted to impose any conditions which he chooses upon any use which he may allow of it. The defect in this thinking springs from the substituting of inference and argument for the language of the statute, and *from failure to distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding, and rights which he may create for himself by private contract, which, however, are subject to the rules of general, as distinguished from those of patent, law* * * *." (Emphasis added.)

Unequivocably, therefore, this Court's position at the time of the *Motion Picture* case, *supra*, as stated therein was that *whatever right a patent owner may have to restrict the use of a patented machine to unpatented supplies "must be a right derived through the general law from the ownership of the property in the machine."* We have no reason to believe it is not the same today. Accordingly, the rights must be *tested* by the general law which has crystallized into Section 3 of the *Clayton Act.*

As clearly, the rule of the *Carbice* and *Leitch* cases is *not* a limitation on the foregoing rule since these cases follow that part of the *Motion Picture* case, *supra*, which this Court deliberately separated from the foregoing rule.

We wish to point out here that it is manifest from the

foregoing rule that a contract between a patent owner and a licensee or lessee including a restrictive clause as to material or supplies used in a leased *patented* machine is *not* void merely because the machine is patented. That the leased machine is patented is merely another item of consideration. Paramount are the contract itself and its effect, and not the fact that the leased machine is patented. This is the point which the petitioner persists in overlooking, and which the Seventh Circuit Court of Appeals clearly perceived.

The Respondent Follows a Practice Sanctioned by the Ruling of This Court in Federal Trade Commission v. Sinclair Refining Co., 261 U. S. 463, 67 L. ed. 746.

The respondent follows a practice which this Court in *Federal Trade Commission v. Sinclair Refining Co.*, 261 U. S. 463, 67 L. ed. 746, sanctioned as legal and not in violation of Sec. 3 of the *Clayton Act.** The facts in that case and those here are on all-fours. That certain machines leased are patented is immaterial *either to condemn or to justify the respondent in its practice*, or to differentiate from the *Federal Trade Commission* case, *supra*. The Seventh Circuit Court of Appeals fully appreciated this last-mentioned important point when it stated (R. 127):

---

*Clayton Act, Sect. 3:

"Sec. 3. That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption or resale within the United States or any territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, *on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale or contract for sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.*" (Emphasis added.)

"A patent, in itself, is a monopoly—a legal monopoly. The limits of that monopoly are prescribed (and fixed) by the statute. They are to make, to sell, and to use the patented product or process for a period of seventeen years. The *patent grant* does not, however, extend to control of the making, selling, or the use of an unpatented article which may be the product of the patented process or product, or which may be necessarily used by the licensee of the patented machine or product.

"*On the other hand, a patentee is not handicapped in his commercial transactions because he owns a patent.* What he could lawfully do before he acquired the patent, he may lawfully do after acquirement. *Neither the Sherman Act, nor the Clayton Act, was intended to discriminate between patentees and others when it comes to use or sale of unpatented articles.*" (Emphasis supplied.)

Now, then, let us examine the *Federal Trade Commission* case, *supra*, and compare the facts there with the facts here.

The facts of the *Federal Trade Commission* case, *supra*, are, as here, quite simple, being condensed in the following words of this Court (page 749):

"In separate proceedings against thirty or more refiners and wholesalers, the Federal Trade Commission condemned and ordered them to abandon the practice of leasing underground tanks with pumps to retail dealers at nominal prices and upon condition that the equipment should be used only with gasoline supplied by the lessor * * *."

In other words, each of the refiners and wholesalers of gasoline leased its pump or pumps on the condition that only gasoline sold by them be dispensed through the pump or pumps. None of the leases specifically forbade the use of pumps of competitors or the sale of gasoline of others

in the pumps of competitors. The specific attacked clause of a typical lease which the Commission contended violated *Section 3* of the *Clayton Act* read (p. 751):

> "1. The above-described equipment shall be used by the party of the second part for the sole purpose of storing and handling the gasoline supplied by the party of the first part."

This Court, after considering the charges of the Commission in respect to the action of the refining companies and wholesalers, said in respect to the leases (p. 753):

> "Respondent's written contract *does not undertake to limit the lessee's right to use or deal in the goods of a competitor of the lessor, but leaves him free to follow his own judgment.* It is not properly described by the complaint, and is not within the letter of the Clayton Act. But counsel for the commission insist that inasmuch as lessees generally—except garage men in the larger places—will not encumber themselves with more than one equipment, the practical effect of the restrictive covenant is to confine most dealers to the products of their lessors; and we are asked to hold that, read in the light of these facts, the contract falls within the condemnation of the statute. Standard Fashion Co. v. Magrane-Houston Co., 258 U. S. 346, 66 L. ed. 653, 42 Sup. Ct. Rep. 360, and United Shoe Machinery Corp. v. United States, 258 U. S. 451, 66 L. ed. 708, 42 Sup. Ct. Rep. 363, are relied upon." (Emphasis added.)

This Court analyzed the two cases urged by the Commission in support of its contention that the clause in the lease was practically a restrictive covenant not to purchase the goods of a competitor, differentiated them, and stated (p. 753):

> "*There is no covenant in the present contract which obligates the lessee not to sell the goods of another; and its language cannot be so construed.* Neither the findings nor the evidence show circumstances similar

to those surrounding the 'tying' covenants of the Shoe Machinery Company. Many competitors seek to sell excellent brands of gasoline, and no one of them is essential to the retail business. The lessee is free to buy wherever he chooses; he may freely accept and use as many pumps as he wishes, and may discontinue any or all of them. *He may carry on business as his judgment dictates and his means permit, save only that he cannot use the lessor's equipment for dispensing another's brand.* By investing a comparatively small sum, he can buy an outfit and use it without hindrance. He can have respondent's gasoline, with the pump or without the pump, and many competitors seek to supply his needs. (Emphasis added.)

"The cases relied upon are not controlling."

This Court went on to point out that the Federal Trade Commission Act was not violated by the actions of the respondents, stating, among other things (p. 753):

"• • • The devices are not expensive—$300 to $500—can be purchased readily of makers, and, while convenient, *they are not essential* • • •." (Emphasis added.)

In concluding its opinion this Court said in respect to the powers of the Commission (p. 754):

"The powers of the commission are limited by the statutes. It has no general authority to compel competitors to a common level, to interfere with ordinary business methods, or to prescribe arbitrary standards for those engaged in the conflict for advantage called 'competition.' The great purpose of both statutes was to advance the public interest by securing fair opportunity for the play of the contending forces ordinarily engendered by an honest desire for gain. And to this end it is essential that those who adventure their time, skill and capital should have large freedom of action in the conduct of their own affairs."

Certainly the facts and circumstances of the present case

could not be closer to another set than to those in the *Federal Trade Commission* case, *supra.* In both cases dispensing machines were leased with the provision that only the product of the lessor be dispensed in the machines. In both cases the leases did *not* prohibit the lessees from securing a competitor's machine and from dispensing the competitor's product therein. In both cases the cost of the machines was small, there $300 to $500 and here $300 and less. In both cases the leased machines were nonessential. In both cases no actual monopoly was created, for there, other concerns' pumps could be and were leased, and here, other concerns' depositors can be and are leased. The petitioner has not proved and does not contend that the respondent has created a monopoly in salt tablets. Here, the depositors are patented, but the point is per se of no significance, for Section 3 of the Clayton Act attaches, when it does, not because the device is patented, *but in spite of the fact.* The *Motion Picture* case, *supra,* discussed above is clear in support of this point. The *Federal Trade Commission* case, *supra,* does not show whether the pumps were patented, but the likelihood is that they were at least in part. As we point out below in the consideration of the *International Business Machine Corp.* case, 298 U. S. 131, this Court *did not place as the basis of its decision there,* either, *that the machines were patented.*

Palpably, the respondent is following a practice sanctioned by this Court in the *Federal Trade Commission* case, and *should not be penalized because it owns a patent.* We show *infra* that the *patent sued on* below is *not* used in an attempt to monopolize salt tablets, the negative side of our position.

The Case of International Business Machine Corp. v. U. S., 298 U. S. 131, 80 L. ed. 1085.

This Court's decision in the case of *International Business Machine Corp. v. U. S.*, 298 U. S. 131, 80 L. ed. 1085, is of more than mere passing interest, for it supports our contentions in regard to the *Motion Picture* and *Federal Trade Commission* cases, *supra*.

The facts of the case show that the International Business Machine Corp. owned and leased certain machines for performing mechanical tabulations and computations. It and a co-operating competitor were the only two companies to manufacture such machines, which are very expensive. The Corporation leased the machines with the restriction that they be used only with tabulating cards purchased from the Corporation. In finding the practice of the Corporation to be a violation of the *Clayton Act* this Court, after quoting Sec. 3 thereof, said (p. 1088):

> "Little need be said of the contention that the condition of appellant's leases does not infringe these prohibitions. It is true that the condition is not in so many words against the use of the cards of a competitor, but is affirmative in form, that the lessee shall use only appellant's cards in the leased machines. But as the lessee can make no use of the cards except with the leased machines, and the specified use of appellant's cards precludes the use of the cards of any competitor, the condition operates in the manner forbidden by the statute. See United Shoe Machinery Corp. v. United States, 258 U. S. 451, 457, 458, 66 L. ed. 708, 717, 42 S. Ct. 363; compare Federal Trade Commission v. Sinclair Ref. Co., 261 U. S. 463, 474, 67 L. ed. 746, 753, 43 S. Ct. 450. A different question is presented from that in the Sinclair Ref. Co. case, where a wholesale distributor of gasoline leased gasoline pumps to retail dealers with the stipulation that they should not be used for the pumping of gasoline of the lessor's competitors. As the only use made of the

> gasoline was to sell it, and as there was no restraint upon the purchase and sale of competing gasoline, there was no violation of the Clayton Act."

It is important to note that this Court neither overruled nor modified the case of *Federal Trade Commission v. Sinclair Refining Co.*, 261 U. S. 463, 67 L. ed., but that it distinguished the same from the *International Business Machine Corp.* case. Each case stands on its own facts.

Also of importance here in the *International Business Machine Corp.* case are the following words of this Court (p. 1089):

> "But we do not place our decision on this narrow ground. We rest it rather on the language of § 3 of the Clayton Act, which expressly makes tying clauses unlawful, whether the machine leased is 'patented or unpatented.' The section does not purport to curtail the patent monopoly of the lessor or to restrict its protection by suit for infringement. But it does in terms deny to the lessor of a patented, as well as of an unpatented machine, the benefit of any condition or agreement that the lessee *shall not use the supplies of a competitor* * * *." (Emphasis added.)

Hence, again, we find this Court in positive expression to the effect that a *patent owner* is not to be penalized above and beyond one *not* owning a patent, for this Court here states in so many words that a restrictive agreement involving a patented machine is *not per se and without more* fatally defective and invalid, and that if a restrictive agreement involving a patented machine is invalid under Sec. 3 of the *Clayton Act*, it is invalid *not* because the machine forming the subject matter of the contract is *patented*, but *in spite of that fact!*

The Case of American Lecithin Co. v. The Warfield Co., 105 F. (2d) 207, Is Clearly Distinguishable And Is Not Controlling Here, As The Seventh Circuit Court Of Appeals Fully Appreciated.

The petitioner relies in the main on the case of *American Lecithin Co. v. Warfield Co.*, 105 F. (2d) 207, a decision of the Seventh Circuit Court of Appeals, to support its position that the respondent indulges in the practice of employing its patent in suit to create a monopoly in unpatented salt tablets in which the total profits of its business lie. The *Lecithin* case stems from the *Carbice* and *Leitch* decisions of this Court, although it goes further in applying the rule of those cases to direct infringement.

The petitioner's contention is that the Seventh Circuit Court of Appeals in its decision below overruled the *Lecithin* case. Even a casual reading of the opinion of the Seventh Circuit Court of Appeals (R. 124) suffices to clearly demonstrate that there is no truth in this contention, for, after setting forth the test enunciated in the *Lecithin* case (R. 126) and remarking upon Sec. 3 of the Clayton Act (R. 127), the Seventh Circuit Court of Appeals concluded that the facts shown were insufficient to determine whether or not a monopoly was being obtained by the respondent, and sent the case back for a trial upon the merits. The petitioner, in questions 1-3 (Petitioner's Brief, Page 6), takes meritless issue with the requirement of the Seventh Circuit Court of Appeals that a further factual showing be had.

Contrary to the petitioner's contention that the facts in the present case "are substantially on all fours with the material facts in the *Lecithin* case," the facts in the two cases are widely divergent. The only common factor is that both the Warfield Co. and the petitioner were sued as direct

infringers. The petitioner sweepingly states factual similarity, but it does not show any. The practice of the respondent is set forth at page 8, *supra*. Briefly, the facts of the *Lecithin* case follow:

The American Lecithin Co. owns the Working patent 1,781,672, which includes article and method claims involving lecithin as part of an article of manufacture and as used in the method of manufacturing chocolate or chocolate candy. The American Lecithin Company neither practiced the invention nor licensed chocolate manufacturers, but supplied unpatented lecithin to chocolate manufacturers, thereby obtaining its profits wholly through the sale of this unpatented lecithin. Anyone buying lecithin from the American Lecithin Company for the purpose of using it to make the patented chocolate, or to use it in the patented method of making chocolate, was entitled to practice the invention by implied license. The Warfield Co., a chocolate manufacturer, at first purchased lecithin from the American Lecithin Co., but later bought lecithin from competitors of the American Lecithin Co. Forthwith the American Lecithin Co. brought suit for infringement of its patent, an infringement which consisted of the purchase by the Warfield Co. of lecithin from the American Lecithin Co.'s competitors and the use of this lecithin in accordance with the method defined in the claims of the Working patent.

Since the respondent manufactures depositing machines under its patents sued on; since it retains the property right in its depositing machines; since it leases its owned machines to canners with the stipulation that the machines be used only with salt tablets purchased from the respondent, it is manifest that the factual structures are completely different.

In the *Lecithin* case the Seventh Circuit Court of Appeals

set out a yardstick by which to arrive at whether or not an accused practice extends beyond the patent monopoly granted under the statutes. The petitioner quotes the test on page 11 of its brief, and then proceeds to attempt to warp the practice of the respondent into channels to aline therewith. We submit that this attempt of the petitioner is but wishful thinking.

Adopting *arguendo* the rule as stated by the Seventh Circuit Court of Appeals, and using the words of the petitioner (Pet.'s Br. p. 11), the question is

> "* * * whether
>
> "(a) The respondent's activities in the manufacture and sale of salt tablets to the canning industry are beyond its *patent's* domain; whether
>
> "(b) *As a practical matter*, the exercise of the respondent's *patent monopoly* will result in a limited monopoly in an unpatented commodity, (salt tablets); and whether
>
> "(c) The respondent seeks to derive its *profits, not* from the *invention* itself, but from the unpatented supplies (salt tablets) used in the invention." (Emphasis added.)

The true answers clearly and unmistakably show the practice of the respondent to be outside the rule.

In respect to (a), the respondent manufactures depositing machines under its patent. It maintains its property rights in the manufactured machines. It leases its owned machines to canners by special and individual restrictive contracts. The canners' use of the machines with respondent's tablets is dependent upon the *leases*, and *not* upon the patent. Hence, no extramonopolistic use of the patent is employed. This Court in the *Motion Picture* Case, *supra*, clearly and in plain words states that such contracts are to be considered under the general law, which is now

crystallized in Sec. 3 of the Clayton Act, and not under the Patent Law. Hence, the respondent does not violate phase (a) of the test.

Considering (b), the respondent's activity is *not* an exercise of its patent monopoly. The respondent relies upon its leases in its transactions with the canners. Again we refer to the *Motion Picture case, supra,* and we point out that the words "as a practical manner" in this phase of the test are not to be overlooked; that, although the respondent has manufactured salt tablets since 1927 and has enjoyed patent rights on machines since 1931, no monopoly in salt tablets in the respondent exists, nor does the petitioner *even contend* that such monopoly exists. Certainly, a theoretical problematical gauge of monopoly should not be employed when a practical gauge of fourteen years experience exists and conclusively refutes the former. Any business monopoly achieved by respondent's leases is dependent upon the *leases,* and *not* upon the patent sued on, and the practice, if unlawful, should be declared so only after full proof and scrutiny under Sec. 3 of the *Clayton Act.* Manifestly, therefore, there is no violation of phase (b) of the rule.

Considering (c) of the rule, the respondent does derive a profit from salt tablets, but it charges $30.00 a year rental for each machine constructed under the patent, which is ample compensation for the use of the machine. Manifestly, the major profits derive from the salt tablets, but such is only a matter of degree and due to the sales factor of selling many more tablets than there are machines leased. The depositing machines are an aid to the business of selling salt tablets. There is no rule of law which requires that the income from each patent owned by a company must be the *main* source of income of the company, or suffer attaching of the rule of the *Carbice* and

Leitch cases. Manifestly, therefore, phase (c) of the rule is not violated.

It is clear that the facts of the present case take it from the rule of the *Lecithin* case. Certainly, if any one of the Circuit Courts of Appeals is fully cognizant of the *Lecithin* case, it is the Seventh Circuit Court of Appeals, which handed down the decision. However, the Seventh Circuit Court of Appeals is not so close to the forest that it fails to see the trees, and, therefore, it has found no violation of the rule of that case in the facts and circumstances of the present case.

We submit, therefore, that the rule of the *Lecithin* case does not apply here.

The Carbice and Leitch Cases.

The cases of *Carbice Corp. v. American Patents Development Corp.*, 283 U. S. 27, 75 L. ed. 819, and *Leitch Mfg. Co. v. Barber Company, Inc.*, 302 U. S. 458, 82 L. ed. 371, do not require analysis in view of the fact that we have conclusively distinguished the present case from the case of *American Lecithin Company v. The Warfield Co.*, 105 F. (2d) 207, which stems from the aforesaid two decisions of this Court.

In considering the *Motion Picture* case, *supra*, we point out that the *Carbice* and *Leitch* cases do not modify or limit the position of this Court in regard to contracts involving patented machines as expressed in the *Motion Picture* case, since that part of the *Motion Picture* case which formed the basis of the decision and which was divorced from the portion referring to contracts involving patents is quoted with approval and as precedent in the *Carbice* and *Leitch* cases. Inasmuch as the foregoing is clearly true, and since this Court is quite familiar with its *Carbice*

and *Leitch* decisions, it would be superfluous to also specifically and particularly distinguish the present case from the *Carbice* and *Leitch* cases.

Manifestly, the facts of the present case place it outside of the rule of the *Carbice* and *Leitch* cases.

Collateral Monopolistic Practices.

The petitioner alludes to a process patent of the respondent (Pet.'s Brief, p. 4). The Seventh Circuit Court of Appeals not only disregarded the patent in its opinion, but at the hearing took positive issue with the petitioner's counsel in respect to the point.

Without admitting either collateral or direct monopoly, we point out that the courts are uniform in the rule that collateral monopolistic practices of a plaintiff are not a defense to a suit for infringement.*

D. R. Wilder Mfg. Co. v. Corn Products Refining Co., 236 U. S. 165, 59 L. ed. 520;

United States Fire Escape Counterbalance Co. v. Joseph Halsted Co., 195 F. 295 (D. C., N. D. Ill., E. D.);

Harms et al. v. Cohen, 279 F. 276 (D. C., E. D. Pa.);

M. Witmark & Sons v. Pastime Amusement Co., 298 F. 470 (D. C., E. D. S. C.), Aff'd 2 F. (2d) 1020;

Radio Corporation of America et al. v. Duovac Radio Tube Corp., 6 F. Supp. 275 (D. C., E. D. N. Y.);

Radio Corporation of America et al. v. Majestic Distributors, Inc., 53 F. (2d) 641 (D. C., D. Conn.); *Radio Corporation of America et al. v. United Radio & Electric Corp. et al.*, 50 F. (2d) 206 (D. C., D. N. J.); *Radio Corporation of America v. Hygrade Sylvania Corp.*, 10 F. Supp. 879 (D. C., D. N. J.); *General Electric Co. v. Minneapolis Electric Lamp Co.*, 10 F. (2d) 851 (D. C., D. Minn., 4th Div.), Aff'd 7 F. (2d) 1020; *Western Electric Co., Inc., et al., v. Patent Reproducer Corp. et al.*, 53 F. (2d) 639 (D. C., S. D. N. Y.); *National Electric Products Corp. v. Circle Flexible Conduit Co., Inc.*, 57 F. (2d) 219 (D. C., E. D. N. Y.); *Vitagraph, Inc., et al., v. Grobaski et al.*, 46 F. (2d) 813 (D. C., W. D. Mich., N. D.); *Buck et al. v. Newsreel, Inc., et al.*, 25 F. Supp. 787 (D. C., D. Mass).

In the *United States Fire Escape* case, *supra*, the rule is expressed by the court (p. 298):

> "* * * The United States Steel Corporation, for instance, is the owner by assignment of hundreds of patents. In all its infringement suits may defendants raise the question now in litigation by the government whether it is or is not within the Sherman Act? The question would seem to suggest the answer, to the effect that an infringement suit may be disposed of without touching the question of trust or combination, and that the court, in adjudging infringement, would not thereby approve a possible illegal combination."

Manifestly, extensive quotations are unnecessary.

Warning of Infringers.

Then the petitioner complains because the Seventh Circuit Court of Appeals did not consider certain letters sent to the trade by the respondent (Pet.'s Br. p. 13). Not only are such letters immaterial to the question here, but also the courts are uniform in holding that a patent owner may warn infringers in good faith.*

American Ball Co. v. Federal Cartridge Corporation, 70 F. (2d) 579 (C. C. A. 8), 1934;
Adriance, Platt & Co. v. National Harrow Co., 121 F. 827 (C. C. A. 2), 1903;
A. B. Furquhar Co. v. National Harrow Co., 102 F. 714 (C. C. A. 3), 1900.

In the *Adriance, Platt & Co.* case, *supra*, the court said (pp. 829-30):

> "Undoubtedly the owner of a patent is acting within his rights in notifying infringers of his claims, and

Flynn & Emrich Co. v. Federal Trade Commission, 52 F. (2d) 836 (C. C. A. 4) 1931; *McIlhenny Co. v. Gaidry*, 253 F. 613 (C. C. A. 5), 1918; *Celite Corporation v. Dicalite Co.*, 96 F. (2d) 242 (C. C. A. 9), 1938; *International Silver Co. v. Oneida Community, Ltd.*, 27 T. M. Rep. 512 (D. C., N. D. N. Y.), 1937.

threatening them with litigation if they continue to disregard them; nor does he transcend his rights when, the infringer being a manufacturer, he sends such notices to the manufacturer's customers, if he does so in good faith, believing his claims to be valid, and in an honest effort to protect them from invasion. The question whether the patent owner is acting in good faith in advertising his claims to the manufacturer's customers by circulars or letters can seldom be determined from the contents of the communication alone, and, like all questions of intent, must generally be determined *by the extrinsic facts* * * *." (Emphasis supplied.)

The Practical Effect of The Petitioner's Contentions.

Before closing our brief we direct attention to the practical effect of the petitioner's contention when coupled with its own conduct.

The petitioner admittedly places on its infringing and noninfringing depositing machines a tag which prohibits the use of the machines by the lessee except for the deposit of salt tablets sold by the petitioner, a practice which it surely believes legal. The petitioner's depositing machines are not patented. Therefore, if the petitioner's contentions here are allowed and the decision of the lower court is reinstated, the petitioner may *continue* its aforesaid practice and can thus lease depositing machines which manifestly infringe the respondent's patent sued on, *and do it with impunity*, since the respondent will be adjudged guilty of monopolistic practice and beyond the pale of the law due to the fact that its machines, leased in *exactly* the same manner as those of the petitioner, *are patented!* The respondent will be penalized *because* it has had the ingenuity to develop and the foresight to patent its depositing machine. It will be penalized *solely* because it has thus developed and patented its machine, for it does not

violate Sec. 3 of the *Clayton Act*, the standard by which its practice should be adjudged.

Certainly, there is neither justice nor common sense in such a situation, and a decision creating such a situation is in conformity with neither the spirit nor the letter of Art. I, Sec. 8* of the constitution, upon which the patent statutes and laws are based, and is an unwarranted amendment to Sec. 3 of the *Clayton Act*.

The Petitioner's Brief.

Since the respondent's position is urged affirmatively, it is unnecessary to attack the brief of the petitioner topic by topic. We have demonstrated the fallacy of the petitioner's contention as to the respondent's practice, and all that the petitioner urges falls with its erroneous major premise.

Just one inaccuracy in the petitioner's brief do we wish to correct, namely, the statement on page 13, second paragraph, that "If the purchase of another machine is contemplated, respondent's lessee-licensee is confronted at once with a suit for infringement by his lessor-licensor." No suit for infringement would lie if a lessee of the respondent bought or leased a machine like the petitioner's can-operated machine, or like any one of numerous machines not falling under the patent sued on here. The point is elementary.

CONCLUSION.

For reiteration we repeat that the simple question here is, is a lease agreement valid under all of the laws of the land, automatically rendered invalid by the granting of a

*"The Congress shall have power * * * to promote the *progress* of science and useful arts, by securing for limited times to authors and inventors the *exclusive right to their* respective writings and *discoveries* (Art. I, sec. 8)." (Emphasis supplied.)

patent covering at least to a degree the subject matter leased under the agreement? Does it thereby become a shield for violation of valid patent rights? Specifically considering a particular case, namely, that of the respondent, are the leases of the respondent whereby it leases depositing machines to canners with the stipulation that salt tablets for depositing thereby be purchased only from the respondent invalid by the mere fact, without more, that the machine leased is patented, when such leases prior to the issuance of the patent were valid, and does such invalidity react to protect infringers of the patent?

We repeat that there is nothing in this Court's *Carbice* and *Leitch* decisions which can be construed as authority to effect such an unwarranted restriction on Sec. 3 of the *Clayton Act* and to deprive a patent owner of rights conferred by the Patent Office under the provisions of the patent statutes. Neither is there in the *Lecithin* case, and the Seventh Circuit Court of Appeals so held. There would be an anomalous situation indeed if a patent duly granted under the patent laws should render a previously valid agreement invalid merely by the issuance thereof. There is certainly no basis for thus turning a patent into an instrument of automatic destruction, for the Congress in passing the *Clayton Act* has by Sec. 3 provided ample protection for the rights of the public in regard to restrictive agreements, be the subject matter patented or unpatented.

Hence, we urge that this Court rule that the contention of the petitioner is unsound; that the mere fact that a restrictively leased machine is patented is not by such fact alone a complete defense in a patent infringement case; that a restrictive lease agreement must be tested by the yardstick of Sec. 3 of the *Clayton Act;* and that a restrictive

lease agreement is not a defense to a charge of infringement.

We respectfully submit that the decree of the Seventh Circuit Court of Appeals should be affirmed and that the respondent should be permitted to proceed with the trial of its case upon the merits.

Respectfully submitted,

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